



Using Behavioral Science to Increase Revenues and Compliance

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_experience the commitment™

People do not always respond rationally when faced with choices

- Economists and others historically built models based on people making rational decisions
 - Models were proven wrong
 - New field of behavioral economics was born
- Many things influence decisions
 - Perceived freedom to make choices
 - Relative cost and benefit of those choices
 - Number of choices
- Much of what you do as tax administrators is to get people to change their behavior

An example of perception affecting outcomes...

The Economist

	<u>Price</u>	<u>Selection</u>
1. On-line only subscription	\$59	68%
2. Print and web subscription	\$125	32%

An example of perception affecting outcomes...

The Economist

	<u>Price</u>	<u>Selection</u>
1. On-line only subscription	\$59	16%
2. Print and web subscription	\$125	84%
3. Print only subscription	\$125	0%

Factors that can lead to irrational behavior

- Many factors can lead people to not act fully rationally:
 - Disproportionately factor losses over gains
 - Place too much likelihood in small probabilities
 - Conceptually place money into groupings
 - Very high discount for money in the future



People do what they believe others do...

- People are driven by what others do
- Tell people they are in the norm (when desirable)
 - Be as specific as possible
- Be careful when dealing with undesirable norms
 - Try not to communicate cases where non-compliance is the norm



An example of following others...

- A recent study by a hotel chain found:
 - A sign was added to the room asking people to recycle their towels:
 - **35.1% recycled**
 - The sign was changed to say that that most guests at the hotel recycled their towels at least once during their stay:
 - **44.1% recycled**
 - The sign was changed to say that the immediately prior occupant of the room had reused towels at some point during their stay:
 - **49.3% recycled**



Strategies to use this in Tax Administration

- Changing text in letters
- Self-Service Payment Agreements
- Communicating Audit rates and results
- Providing Choices to Taxpayers



Changing Text in Letters

- Easy to understand language
- Point out the negative consequences
- When most people do the right thing – tell them
- View text of letters from an external focus
 - All too often letters are written with an internal focus
- Think about your word choices, “honest”, “timely”, “compliant”



Changing Text in Letters

- Example from the UK's National Tax Agency – HMRC:
- Adding the sentence, “Nine out of ten people pay their tax on time.”
 - **Increased the positive response to the letter within 30 days by 0.9%**
- Adding the sentence, “Nine out of ten people in the UK pay their tax on time.”
 - **Increased the positive response to the letter within 30 days by 1.5%**
- Adding the two sentences, “Nine out of ten people in the UK pay their tax on time. You are one of the few people who have not paid us yet.”
 - **Increased the positive response to the letter within 30 days by 3.9%**
- Adding the two sentences, “The great majority of people in _____ (the name of the city on the address) pay their tax on time. You are one of the few people in the _____ area who have not paid us yet.”
 - **Increased the positive response to the letter within 30 days by 6.8%**

Self-Service Payment Agreements

- Many States have implemented self-service payment agreements
- Feedback has shown that these agreements have a lower default rate than ones taken by collectors
 - Lower risk taxpayers
 - Taxpayers implicitly provide commitment



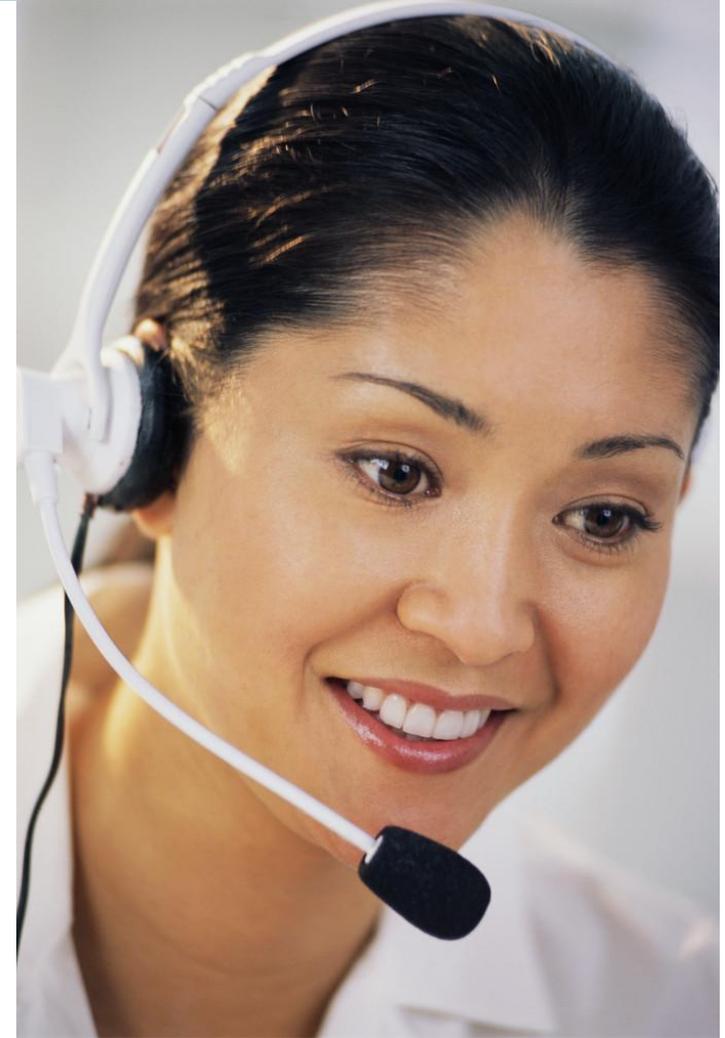
Communicating Audit rates and results

- Don't be afraid to communicate low audit rates to individuals
 - People will overestimate the risk in their mind
 - Do find an appropriate way to communicate the consequences from the audit
- Tell people that most do the right thing
- Consider who would be the best messenger?
 - CPA, individual taxpayer



Providing Choices to Taxpayers

- Don't forget the power of threes
 - Applies to both notices, self-service tools and staff interaction
- People are unlikely to pick the “most expensive entrée”
- Opportunities to appeal to their ego
- Signing payment agreements is likely to increase compliance with the agreement



Consider Random Trials

- Studying behavior is an imperfect science
- Your agencies have literally 100s of interactions every day and 1000s every month
- Trying different strategies and testing them can lead to dramatic improvements
- What would the impact on your organization be if:
 - Payment in full from first notices increased by 5%
 - Defaults on payment agreements decreased by 10%
 - 10% fewer taxpayers went into collections
 - 10% of the most common filing mistakes were no longer made



About the Presenter

ISO 9001 Certified



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- *19 Years with CGI exclusively working with State, Federal and Local tax agencies*
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